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DEFENSE CONTRACT MANAGEMENT AGENCY

Amid Ongoing Efforts to Rebuild Capacity, Several Factors Present Challenges in Meeting Its Missions

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DEFENSE CONTRACT MANAGEMENT AGENCY

Amid Ongoing Efforts to Rebuild Capacity, Several Factors Present Challenges in Meeting Its Missions

Why GAO Did This Study

The Defense Contract Management Agency (DCMA) provides contract administration services for DOD buying activities. Its contract management offices (CMO) work with defense contractors to help ensure that goods and services are delivered on time, at projected cost, and that they meet performance requirements. DCMA also supports combatant commanders during contingency operations. As DCMA recovers from years of significant downsizing, GAO was asked to (1) assess how the agency is positioning itself to meet its missions, (2) determine the extent to which contingency missions affect its oversight domestically, and (3) identify other factors that may affect its domestic missions going forward. GAO reviewed regulations, policies, and guidance, analyzed the status of contractor business systems for 17 defense contractors, and interviewed a wide range of DCMA officials.

What GAO Recommends

GAO recommends that DOD work with DCMA and DCAA to identify and execute options to assist in audits of contractor business systems. GAO also recommends that DCMA clarify for CMOs the agency's plans to continue funding existing workforce positions and that it identify ways to accurately reflect the status of contractor business systems, such as changing the status to unassessed when audits are delayed. DOD concurred with the first two recommendations. DOD partially concurred with the remaining recommendation but discussed several planned actions which, if implemented, should improve the transparency of system assessments.

View GAO-12-83 or key components. For more information, contact John Hutton at (202) 512-4841 or huttonj@gao.gov.

What GAO Found

After undergoing significant shifts in its workforce, structure, and policies and procedures over the past 10 years, DCMA has taken steps to rebuild its capacity. As the workforce declined, the agency experienced significant erosion of expertise in some areas, such as the cost and pricing function, such that it could not fulfill all of its oversight functions. A shift to a substantially decentralized, customer-oriented approach in the mid-2000s, intended to mitigate the impact of this workforce imbalance, resulted in unintended consequences such as inefficiencies in how work was done at the CMOs. DCMA has since begun to rebuild workforce expertise and has instituted new, centralized policies and procedures. The agency expects to reach about 13,400 total civilian staff by 2015—a 43 percent increase from about 9,300 staff in 2008. DCMA's military workforce has generally ranged between 500 and 600 in recent years. A growing number of DCMA's new employees have been hired using the Defense Acquisition Workforce Development Fund. To help gauge progress in meeting its missions, the agency uses performance indicators for contractor supplier base issues and DCMA processes, workload, and resources.

Agency staff deployed on contingency missions are small in number—272—when compared with the number of total DCMA employees, but several DCMA officials told GAO that deployments have a constraining impact on the agency's domestic mission. CMO officials identified examples of how their operations have been affected by deployments, such as delays in conducting timely quality assurance, audits of contractor processes, and contract close-out activities. The impact of deployments depends on the type of deployment or on certain features of the CMO; the timing of military leaders' deployments; and multiple or extended deployments of civilian volunteers. DCMA has noted support for the warfighter is a high priority for the agency, but has taken steps to mitigate the impact of deployments, such as lengthening deployment time frames to reduce their frequency. To minimize the impact of civilian deployments, DCMA established a position for a corps of personnel to support the contingency mission.

Several factors may affect DCMA's ability to meet its missions going forward. One significant source of external risk stems from DCMA's reliance on the Defense Contract Audit Agency (DCAA) to conduct audits of certain contractor business systems. Business systems—such as accounting and estimating systems—are the government's first line of defense against fraud, waste, and abuse. Because of its own workforce struggles, DCAA has lagged in completing a number of such audits and is currently focusing on other high priority areas. GAO found, however, that DCMA contracting officers maintained their determination of many contractor business systems as adequate despite the fact that the systems had not been audited in a number of years—in many cases well beyond the time frames outlined in DCAA guidance. Further, based on a recent DOD policy change, DCAA is no longer auditing contractor proposals below certain cost thresholds, and DCMA will need to use newly-hired contract cost/price analysts to help pick up this increased workload. Internal risks are also present, such as uncertainty on the part of CMOs about whether funding will be available to retain personnel hired using the Defense Acquisition Workforce Development Fund.

_____ **United States Government Accountability Office**

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Abbreviations

ACO	Administrative Contracting Officer
AT&L	Acquisition, Technology, and Logistics
CCAS	Contingency Contract Administration Services
CMO	Contract Management Office
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DOD	Department of Defense
EE	Emergency Essential
EVMS	Earned Value Management System
FAR	Federal Acquisition Regulation
MMAS	Material Management and Accounting System
NASA	National Aeronautics and Space Administration
O&M	Operations and Maintenance

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

November 3, 2011

The Honorable Claire McCaskill
Chairman
The Honorable Kelly Ayotte
Ranking Member
Subcommittee on Readiness
    and Management Support
Committee on Armed Services
United States Senate

The Honorable Richard Burr
United States Senate

The Department of Defense (DOD) obligates far more government dollars than any other agency—more than $360 billion under contracts for products and services in 2010. After contracts are awarded, the Defense Contract Management Agency (DCMA) is responsible for providing contract administration services for DOD buying activities, working directly with defense contractors to help ensure that goods and services are delivered on time, at projected cost, and that they meet performance requirements.[1] In addition, as a designated combat support agency, DCMA is tasked with providing contract administration and support to combatant commanders during contingency operations. To help execute its mission, DCMA has staff in Contract Management Offices (CMO) located at or near contractor facilities, in the agency's domestic and international locations. DCMA is currently in a state of transition, recovering from years of workforce downsizing that raised serious concerns about its ability to effectively meet its missions.

Given the multiple responsibilities of DCMA, you asked us to (1) assess how DCMA is positioning itself to meet its missions; (2) determine the extent to which contingency missions have impacted DCMA's ability to provide oversight and surveillance domestically; and (3) identify other factors that may affect its capability to conduct oversight and surveillance domestically going forward.

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[1]While DCMA also provides contract administration services for other agencies, such as the National Aeronautics and Space Administration (NASA), the focus of this report is its support for DOD activities.

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To conduct our work, we reviewed the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS), DOD policies, DCMA guidance, workforce information, information on contingency deployments, and prior reports concerning DCMA, including our prior work as well as the reports of the Commission on Wartime Contracting in Iraq and Afghanistan. We interviewed DCMA officials at headquarters and selected DCMA Centers (e.g., the Combat Support Center and the Cost and Pricing Center). We visited DCMA's three domestic regional commands and 14 of the 40 primary CMOs located across the country.[2] Our nonprobability sample of CMOs was selected based on a number of factors, including geographic location and CMO workload. Within each of the geographic and plant-based CMOs, we selected a nonprobability sample of one or two DOD weapons system programs to gather more detailed information.[3] Programs with large dollar values were selected, and other factors included ensuring that a range of DOD's military services and contractors were represented. For each of these programs, we reviewed DCMA oversight documentation and interviewed members of DCMA's Program Support Teams. We also collected information related to the status of contractor business systems for each of the selected DOD programs and interviewed the DCMA administrative contracting officer (ACO) responsible for oversight of those business systems.[4] For some selected programs, we interviewed DOD program office officials and/or contractor representatives to gain their insights on DCMA oversight and surveillance. We also interviewed senior officials at the Defense Contract Audit Agency (DCAA) to develop a better understanding of issues related to contractor business system and pricing audits. See appendix I for additional details on our scope and methodology.

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[2]Because of the interest in identifying the impact of contingency deployments on DCMA's domestic oversight activities, we focused our work on domestic CMOs, excluding overseas CMOs from our selection. DCMA also has what it calls "streamlined CMOs," which report to the primary CMOs.

[3]The findings from the CMOs we visited are not generalizable to the population of all DCMA CMOs or all DOD weapons systems. The findings do, however, ensure regional diversity and representation of a range of DOD services and contractors.

[4]For contractor business systems, we reviewed the status of each system and the date the system was last audited or reviewed. Our scope did not include an examination of the specific findings within each audit.

We conducted this performance audit from October 2010 to November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DCMA has undergone an evolutionary process to become the agency it is today. In 1990, DOD decided to consolidate and streamline contract administration services, which, at the time, were performed by the Defense Logistics Agency (DLA) as well as each of the military services. DOD made this change to achieve several benefits, including savings to the government through decreased overhead costs and increased efficiencies that would allow the elimination of thousands of DOD contract administration positions. As a result of these decisions, in 1990 the Defense Contract Management Command was formed as a command under DLA, with the responsibility of performing contract administration services that had previously been performed by DLA and the military services. In 2000, this command became DCMA, an independent agency no longer under the umbrella of DLA.[5] As of June 2011, DCMA had approximately 10,900 staff, including roughly 10,400 civilians and 500 military.

The FAR identifies 71 functions for which a contract administration office (such as DCMA) is generally responsible, including activities such as issuing contract modifications, reviewing and approving contractors' requests for payments, performing production and engineering surveillance, ensuring contractor compliance with contractual quality assurance requirements, and maintaining surveillance of flight operations.[6] A wide range of employees within DCMA perform these

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[5]For purposes of this report, we refer to the agency as DCMA (and not as the Defense Contract Management Command under DLA), even when we make reference to the agency in the 1990s.

[6]The FAR identifies 71 contract administration functions that are to be performed by a cognizant contract administration office (e.g., DCMA), to the extent that they apply, as well as an additional 11 functions that are to be performed by the cognizant contract administration office only when specifically authorized by the procuring contracting office. FAR § 42.302 (a) and (b).

responsibilities, including ACOs, engineers, property administrators, quality assurance representatives, and government flight representatives. Government flight representatives, among other things, are responsible for approval of contractor test flights, procedures, and crew members, and for ensuring contractor compliance with DCMA guidance on contractor flight and ground operations.

DCMA is assigned administrative oversight of a contract when delegated that authority by the procuring contracting office. Procuring contracting officers, who are responsible for awarding contracts, generally make the decision whether to retain some or all areas of contract administration or to delegate that authority to DCMA. When DCMA is delegated contract administration responsibilities for major programs, a memorandum of agreement is established between the program office that is buying the products or services and the CMOs.[7]

DCMA and DCAA Roles Regarding Contractor Business Systems

DCMA also relies on DCAA in executing some of its contract oversight responsibilities.[8] For example, DCMA contracting officers can use DCAA audits to assist in determining whether a contractor's business systems are adequate, although audit opinions can also be rendered by a licensed certified public accountant or persons working for a licensed certified public accounting firm or a government auditing organization. DOD has recently defined contractor business systems to include six systems, as shown in table 1.

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[7]In its Major Program Support Instruction, DCMA defines "major programs" to include all Acquisition Category I and II programs, as well as other programs considered high priority by DCMA management. DOD classifies its acquisition programs into acquisition categories (ACAT) that depend on the value and type of acquisition. ACAT I programs are generally estimated to require an eventual total expenditure of more than $365 million for research, development, test and evaluation, or more than $2.19 billion for procurement. ACAT II programs do not meet the criteria for ACAT I, but are estimated to require more than $140 million for research, development, test and evaluation, or more than $660 million for procurement (all cost estimates are in fiscal year 2000 constant dollars).

[8]DCAA performs contract audits for DOD, and provides accounting and financial advisory services (in connection with the negotiation, administration, and settlement of contracts and subcontracts) to DOD procurement and contract administration activities.

Table 1: Contractor Business Systems

System	Description
Accounting system	A contractor's system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.
Estimating system	A contractor's policies, procedures, and practices for budgeting and planning controls, and generating estimates of costs and other data included in proposals submitted to customers in the expectation of receiving contract awards.
Purchasing system	A contractor's system or systems for purchasing and subcontracting, including make-or-buy decisions, selection of vendors, analysis of quoted prices, negotiation of prices with vendors, placing and administering of orders, and expediting delivery of materials.
Earned-value management system (EVMS)	A contractor's project management tool that effectively integrates the project scope of work with cost, schedule and performance elements for optimum project planning and control. The qualities and operating characteristics of an earned-value management system are described in American National Standards Institute /Electronics Industries Alliance (ANSI/EIA) Standard-748.
Material management and accounting system (MMAS)	A contractor's system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material.
Property management system	A contractor's system or systems for managing and controlling government property.

Source: Federal and DOD acquisition regulations.

Whether or not a business system is determined adequate can affect the contracts between the government and the contractor. For example, cost-reimbursement contracts are to be used only when the contractor's accounting system has been deemed adequate for determining costs applicable to the contract. If a contractor does not have an approved purchasing system, it is required to get the consent of the contracting officer before entering into certain subcontracts, for example, cost-reimbursement subcontracts, and fixed-price subcontracts over certain thresholds.

The DCMA contracting officer is ultimately responsible for determining whether a contractor business system is acceptable. If the determination is made that a business system contains significant deficiencies, the

contracting officer can withhold contract payments. The percentage of the withholds may be reduced if a contractor submits an acceptable corrective action plan and the contracting officer determines, in consultation with an auditor, such as DCAA, for example, that the contractor is effectively implementing the plan. Recently, there have been concerns about the overlap of responsibilities between DCMA and DCAA in areas such as contractor business systems, proposal audits and findings, and forward pricing rate agreements. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L), has worked with both DCMA and DCAA, and has recently issued new policies and spearheaded changes to the DFARS to help clarify the roles of the two agencies.

DCMA's Domestic and Contingency Support Operations

Operationally, DCMA performs its contract administration mission in two environments—(1) based out of its contract management offices and (2) in the contingency environment. As an agency, DCMA reports to the Under Secretary of Defense for AT&L, but for the purpose of its contingency contract administration responsibilities, DCMA also has an indirect line of reporting to the Chairman of the Joint Chiefs of Staff.

Contract Management Offices

CMOs are located domestically and internationally and are geographic based, plant-based, or specialized. Geographic CMOs provide oversight of contractors located within a specific geographic area, whereas plant-based CMOs are located within a specific contractor's plant and oversight is focused on that contractor and location. Specialized CMOs provide oversight of contracts focused on a specific type of product, such as aircraft propulsion, or aircraft overhaul, maintenance, modification, and repair. CMOs' leadership can be either military or civilian.

Contingency Support

DCMA provides contract administration services and support to combatant commanders during contingency operations. In 2000, when DCMA became an independent agency, it was also established as a combat support agency for DOD. As such, one of DCMA's major roles is to deploy alongside warfighters to provide contingency contract administration services (CCAS). DCMA's Combat Support Center manages DCMA's CCAS support requirements. As the liaison between DCMA, the Joint Chiefs of Staff, and combatant commands, the Center develops and administers contingency policies for the agency and, in particular, manages CCAS deployments. Based on requirements from the CCAS commanders, the Center supervises the process of selecting, training, and deploying qualified DCMA candidates. The types and lengths of deployments are shown in table 2.

Table 2: DCMA Deployment Types

Type	Description	Deployment time
Emergency Essential (EE)	A corps of civilian personnel hired by DCMA (from inside or outside the agency) specifically to support the CCAS mission. Under this program, EEs agreed to a 3-year commitment. In 2011, DCMA implemented a new EE program for a 13-month appointment, with the agency retaining the option to extend the appointment up to 48 months.	During the 3-year commitment, EEs deployed for 6 or 9 months and returned to DCMA sites in the continental United States for the same time period before deploying again. Under the new program, EEs deploy for 12 months.
Civilian volunteer	Selected from among DCMA employees offering to serve on CCAS assignments, civilian volunteers request deployments by applying directly to the Combat Support Center.	179 day temporary duty assignments, with options to extend
Military	Active military generally deploy at some point during their tour of duty with the agency.	Generally 9 months to 1 year

Source: GAO analysis of DCMA information.

Our past work and that of others have identified concerns with DCMA's oversight in the contingency setting, but have also noted some positive outcomes. For example, over the past decade, we, the DOD Inspector General, and others expressed concerns that DCMA was not adequately staffed to provide sufficient oversight in contingency settings.[9] Other contingency-setting issues included a lack of sufficient training for deployed staff and DCMA's inability to determine its resource

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[9]GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145 (Washington, D.C.: Dec. 18, 2006); GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004); DOD Inspector General, *Defense Contract Management Agency Acquisition Workforce for Southwest Asia,* D-2010-051 (Arlington, Va.: April 2010); Commission on Wartime Contracting in Iraq and Afghanistan, *Transforming Wartime Contracting: Controlling Costs, Reducing Risks* (August 2011); and the Report of the Commission on Army Acquisition and Program Management in Expeditionary Operations, *Urgent Reform Required: Army Expeditionary Contracting* (Oct. 31, 2007).

requirements.[10] However, we also found that DCMA's oversight in Iraq produced good results, reporting in 2004 for example that DCMA contracting officers had eliminated unnecessary airfield services and identified equipment and materials that could be reused to reduce contract costs.[11] Further, in 2008 we found that DCMA had made progress in increasing its oversight personnel in Iraq.[12]

DCMA Is Positioning Itself to Meet Its Missions by Strengthening Its Workforce, Policies, and Procedures

DCMA has undergone significant shifts in its workforce, organizational structure, and policies and procedures over the past 10 years. After its formation in the early 1990s, DCMA's workforce numbers declined and there was significant erosion of some areas of expertise, such as the cost and pricing function. Ultimately, the workforce became so out of balance with workload after 2000 that the organization could not fulfill all of its oversight functions. A shift to a substantially decentralized, customer-oriented approach was intended to mitigate the impact of this workforce imbalance, but resulted in a number of unintended consequences, such as inefficiencies in how work was done at the CMOs. In light of recent, significant workforce growth, DCMA is rebuilding its expertise in areas that had been bereft, instituting new, centralized policies and procedures and developing agency-wide performance indicators intended to gauge how well the agency is meeting its missions.

DCMA Is Rebuilding Its Workforce after Significant Erosion of Numbers and Skill Sets

DCMA officials told us that by 2004, the agency faced significant strains on its workforce, brought on by staffing and budget reductions that had been occurring since the agency's formation. Senior DCMA officials said the workforce downsizing made sense for much of the 1990s because there were efficiencies to be gained when DOD consolidated its contract administration services into one agency and because DCMA's workload was also decreasing for much of the decade. By the early 2000s, however, while DCMA's total workforce numbers continued to decline, its workload—measured in obligations the government has incurred but not yet paid, also known as unliquidated obligations—started to increase.

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[10]DOD Inspector General, D-2010-051.

[11]GAO-04-854.

[12]GAO, *Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions are Needed to Sustain Improvements*, GAO-08-966 (Washington, D. C.: July 31, 2008).

Rebuilding Workforce Size

From a low point of about 9,300 in 2008, DCMA has been increasing the size of its workforce. The agency has steadily increased its numbers since that time and expects to reach about 13,400 total civilian staff by 2015—about a 43 percent increase from its size in 2008. Figure 1 depicts the fluctuations in DCMA's workforce from 1993 to 2015.

Figure 1: Actual and Projected DCMA Civilian Workforce Numbers, 1993–2015

Number of full-time equivalents

FY 1993 – FY 2011
Actual numbers

FY 2012 – FY 2015
Projected numbers

Fiscal year
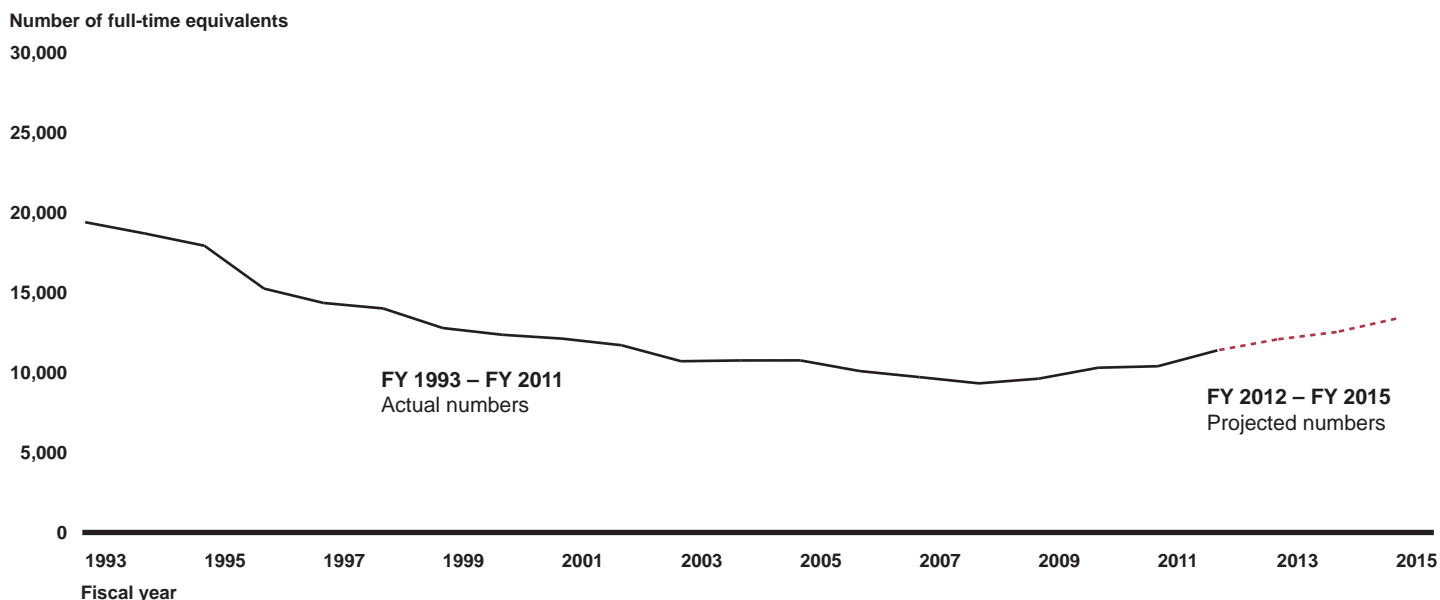
Source: GAO analysis of DCMA data.

Note: DCMA officials reported that the first year for which an accurate count is available is 1993. Prior to 1991, DCMA officials told us that as the Services and DLA were consolidating their contract administration workforces, there were a number of differing estimates of the size of the workforce, though size estimates were generally around 24,000. According to DCMA data, the DCMA military workforce numbers have ranged generally between 500-600 full-time equivalents over the past 8 years.

Figure 2 depicts the fluctuations in DCMA's workload in terms of its unliquidated obligation balance from 1990 to 2015, including the growth over the past decade.

Figure 2: Changes in DCMA Workload in Terms of Unliquidated Obligations, 1990–2015
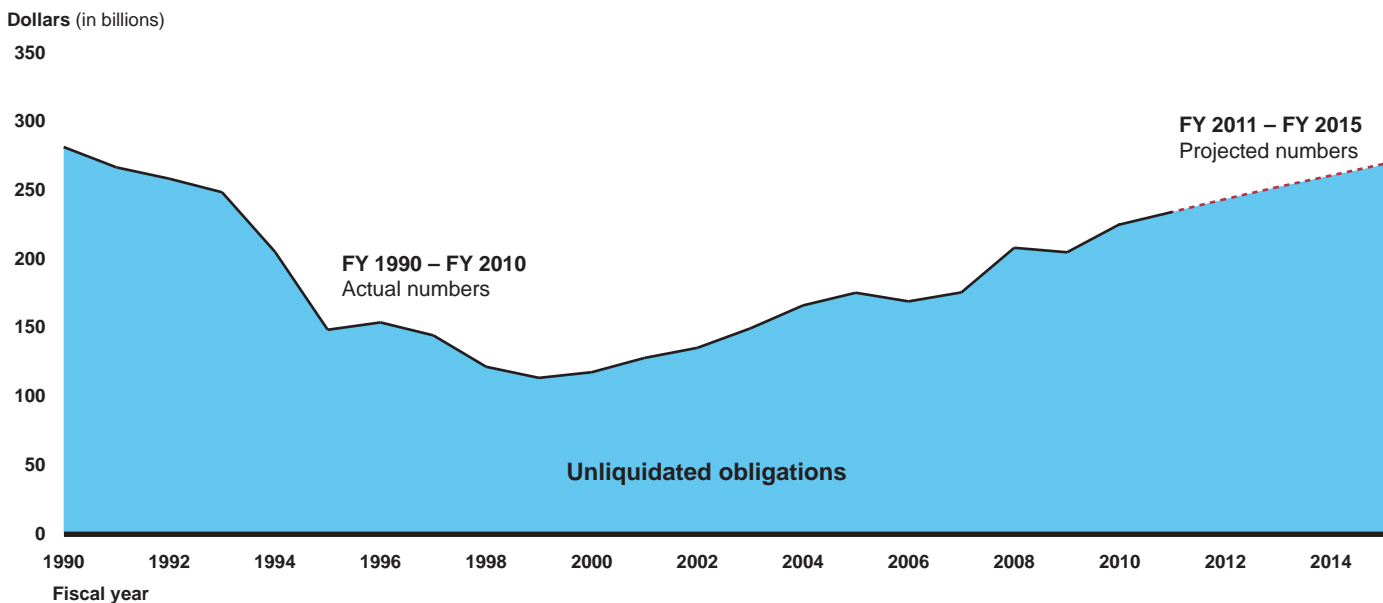
Source: GAO analysis of DCMA data.

Note: Dollars have been adjusted for inflation.

To build and support its workforce, DCMA is using several sources of funding. Based on DCMA's data, about 78 percent of the civilian workforce is currently funded through operations and maintenance (O&M) funds, but a growing number of new employees are hired using funds authorized in Section 852 of the National Defense Authorization Act for Fiscal Year 2008, called the Defense Acquisition Workforce Development Fund.[13] For example, in fiscal year 2011 DCMA reported it hired 1,221 new employees under this authority, a substantial increase from 166 hired in fiscal year 2009. These new employees include 3-year interns as well as journeymen, described by DCMA officials as individuals with extensive experience in a certain business area.

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[13]The National Defense Authorization Act for Fiscal Year 2008 established the Defense Acquisition Workforce Development Fund to provide additional funds for the recruitment, training, and retention of DOD acquisition personnel. DOD aligned the Fund's initiatives into three major categories: recruit and hire, develop and train, and recognize and retain. Pub. L. No. 110-181 § 852; codified in 10 U.S.C. § 1705.

Two particular areas of emphasis in terms of building workforce numbers have been quality assurance and contracting (which includes cost and price analysis). As of December 2010, more than half of DCMA's civilian workforce was employed in one of these two areas. Trends in these particular skill sets from 2005 through 2010 are depicted in figure 3.

Figure 3: Trends in Quality Assurance and Contracting for the DCMA Civilian Workforce, 2005–2010
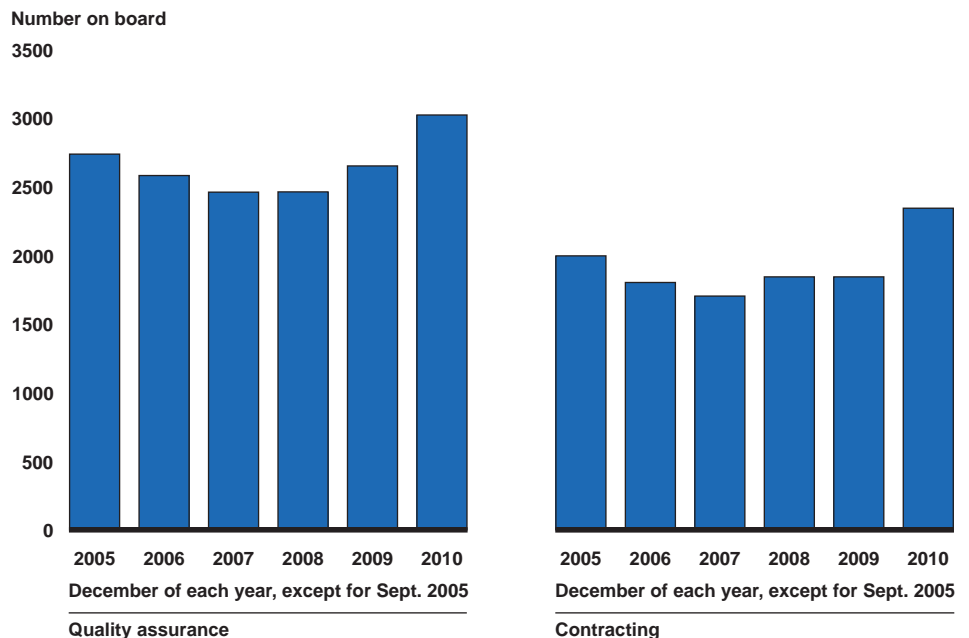
Source: GAO analysis of DCMA data.

Note: According to DCMA, the workforce data for December 2005 was corrupted, so the agency provided us information from September of that year.

Further, from 2011 to 2016, DCMA estimates that these two job categories will continue to be the areas where the agency will experience the most growth in the number of positions.

While DCMA is hiring many new people to fill out its workforce, it is also facing a large percentage of retirement-eligible employees. As of the end of fiscal year 2010, about 24 percent of the DCMA workforce was eligible to retire, and an additional 28 percent qualified for early retirement incentives. The large number of retirement eligible employees makes DCMA vulnerable to the loss of valuable technical expertise and organizational knowledge. In part, DCMA plans to mitigate this risk through aggressive recruiting and knowledge management activities,

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such as bringing back retired annuitants to help raise the skill levels of the newer employees.

Addressing Lost Skill Sets

Building workforce skills and expertise is just as important as increasing numbers of employees. In addition to its precipitous drop in workforce numbers, DCMA had experienced an atrophying of some key skill sets. At the CMO level, one way DCMA is looking to build expertise of its new employees is by changing the workforce structure. Specifically, CMO staff are organized in one of three functional areas: contracting, engineering, or quality assurance. Previously, CMOs were organized in multifunctional teams, with employees from different disciplines (e.g., an ACO, a quality assurance representative, an engineer, etc.) on one team and responsible for overseeing a certain number of contracts. With the new alignment, quality assurance representatives, for example, report to a quality team lead, and this team lead reports to a CMO level quality director. Senior DCMA officials view this change as important for new employees' skills, as they will be able to learn from supervisors with expertise in the same area.

Following are some examples of how DCMA is rebuilding certain skill sets:

Cost and pricing

A particular area of focus for DCMA is re-building its cost and pricing expertise, which had been depleted over time. For example, by the late 1990s DCMA was routinely combining the duties of its contract cost/price analyst positions with the duties of its contracting specialists; and at that time, the agency had lost the majority of its contract cost/price analysts. Loss of this skill set, according to DCMA, meant that many of its pricing-related contract administration responsibilities, such as negotiating forward pricing rate agreements and establishing final indirect cost rates and billing rates, were no longer performed to the same level of discipline and consistency as in prior years. As a result, DCMA reported that DOD's acquisitions were subjected to unacceptable levels of cost risks. In one recent example, a DCMA official told us about a case where an ACO, lacking support from contract cost/price analysts had, for simplicity, incorrectly blended a contractor's overhead rates rather than deriving separate rates for different areas (e.g., general and administrative, and manufacturing).

DCMA has taken several steps to rebuild its cost and pricing capabilities:

- In 2009, DCMA created the Cost and Pricing Center, with a mission of developing and sustaining the agency's expertise in pricing. DCMA officials said the center has helped to hire contract cost/price analysts for the CMOs. It also develops and conducts training for the growing DCMA contract cost/price analyst workforce.

- Over the last 2 years, DCMA reports that it has hired 279 new contract cost/price analysts and cost monitors, extensively using the Defense Acquisition Workforce Development Fund to do so. Currently, DCMA employs a total of about 400 contract cost/price analysts and cost monitors.

Earned-value management

Since 2008, DCMA has also concentrated on rebuilding its earned-value management (EVM) expertise through workforce increases and extensive training.[14] DCMA has increased its workforce for its EVM Center, which was established in fiscal year 2000. Officials told us the workforce has grown from 5 or 6 in 2000 to 46 people in 2011, with plans to fill an additional 12 vacancies. In addition to its other responsibilities (such as overseeing the process for ensuring a contractor's EVM system is validated), center officials provide guidance and direction to EVM specialists located at the CMOs and develop EVM policy in coordination with the CMOs.

Industrial specialists

Approximately 500 industrial specialists, located in the CMOs, are responsible for determining whether contractors have the manpower, machinery, materials, and methods to meet contract requirements; overseeing contractors' manufacturing processes to track progress in meeting contractual delivery dates; and notifying buying commands if the contractor might not meet those dates. There had been a substantial decline in the number of industrial specialists at the agency, but the number has started to grow again. While senior DCMA officials would like industrial specialists to spend more time "on the shop floor" at contractor facilities to gain an understanding of the root causes of scheduling delays, we found

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[14]EVM is an important program management tool for DOD, as it can provide early warning of potential contract cost and schedule performance problems. EVM data are the cost and schedule data reported by the contractor and used to evaluate progress toward program goals.

that they were not consistently doing so at the CMOs we visited. Several of the industrial specialists we spoke with primarily remain at their workstations monitoring contractor production schedules electronically, checking the accuracy of data entered into DCMA's contracts database, or assisting as needed with technical reviews of contractor proposals. Senior officials acknowledged that the focus of industrial specialists over time has shifted away from some of their more important tasks, such as performing on-site surveillance of contractor facilities. Workforce changes within DCMA have contributed to this shift. For example, DCMA procurement technicians traditionally performed routine administrative functions such as entering and maintaining contract data, but this role has been understaffed, resulting in more senior personnel, such as industrial specialists, performing such functions. DCMA is currently taking steps to rebuild the industrial specialist function by hiring more personnel, developing a new manufacturing and production policy, and upgrading training.

Quality assurance

DCMA has identified ongoing concerns with its ability to effectively carry out its quality assurance responsibilities because of workforce size and capability shortfalls, increasing the risk to the warfighter and the taxpayers.[15] For example, DCMA reported an increase in customer complaints in the form of reported quality deficiencies in products. To address the issues related to its quality assurance capabilities, DCMA reports it is, for example, defining certification training for its quality assurance personnel. DCMA also reports it is moving towards standardizing position descriptions as a way to establish consistent expectations for its quality assurance workforce.

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[15]Relatedly, in 2008, we found that DOD's quality specialists, including those at DCMA, had to scale back the amount of oversight they provided as a result of downsizing. GAO, *Best Practices: Increased Focus on Requirements and Oversight Needed to Improve DOD's Acquisition Environment and Weapon System Quality*, GAO-08-294 (Washington, D.C.: Feb. 1, 2008).

DCMA Is Shifting Back to Centralized Procedures After Customer-Oriented, Decentralized Approach Yielded Unintended Consequences

By the mid 2000s, when according to senior officials, DCMA did not have the workforce to fulfill its mission, it undertook a shift in its operations in an attempt to focus on the areas of most importance to its customers—the DOD program offices. This approach included a CMO re-alignment to mirror the organization of DOD program offices and a heavily decentralized approach to DCMA's policies and procedures. In the fall of 2005, DCMA re-aligned its CMOs under four product-oriented divisions: aeronautical, space and missiles, ground vehicles and munitions, and naval systems. In addition to providing a structure more in line with its DOD customers, the alignment was intended to improve the technical expertise of DCMA staff in these particular product areas.
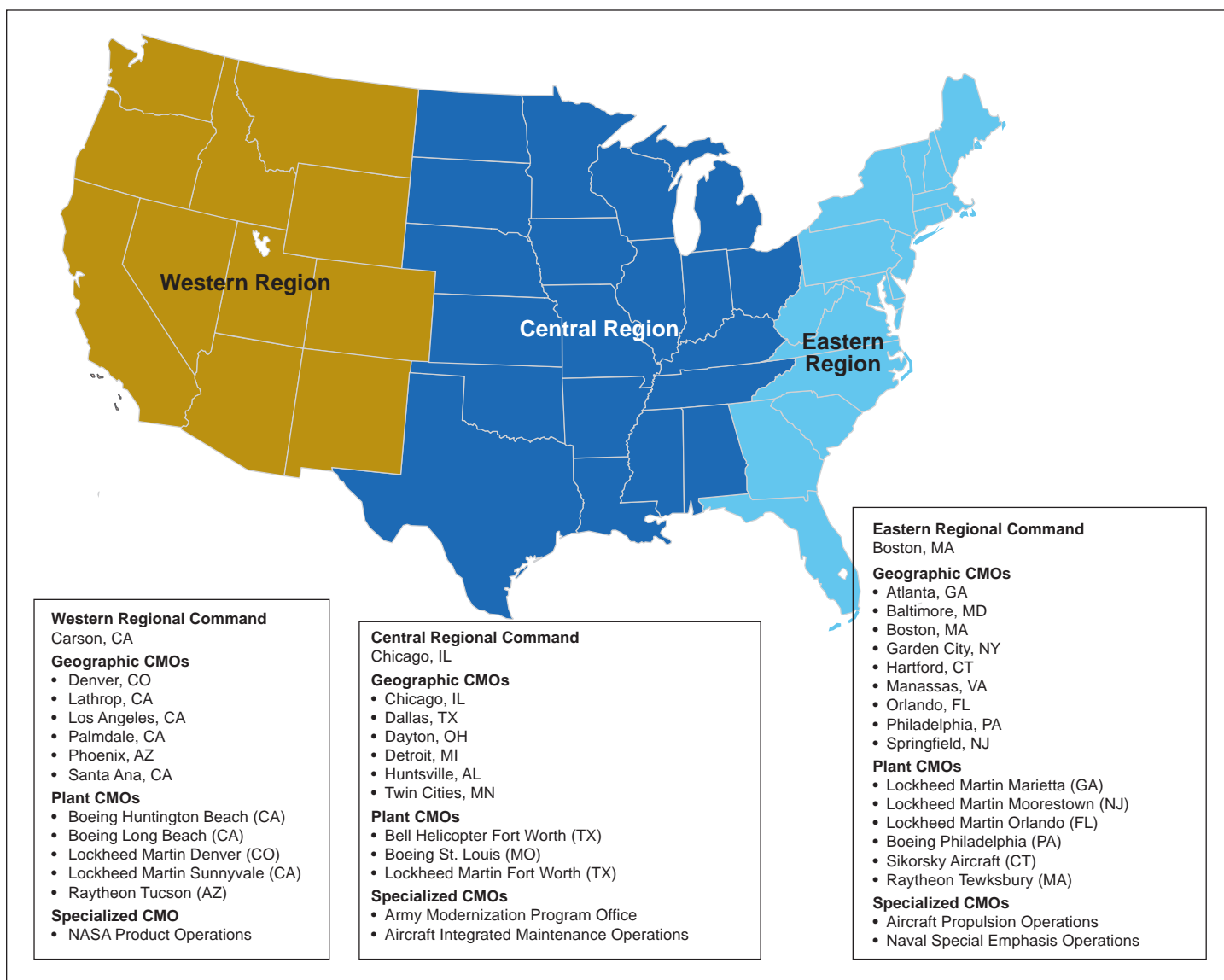
At the same time, DCMA implemented what it called performance-based management, wherein CMOs gauged their success based on metrics reflecting their contributions to outcomes of importance to their customers. In fact, the memorandums of agreement between CMOs and the DOD program offices were designed to hold the CMOs accountable to the program office for such things as reducing the number of functional defects of a product or ensuring that a component was delivered on time. For example, a 2008 memorandum of agreement with a program office purchasing heavy payload tactical trucks was designed to hold the CMO accountable for reducing the number of functional defects on the vehicles. In another example, a CMO committed to a variety of customer outcome performance standards with its Air Force customer that was purchasing unmanned aerial vehicles, including zero-defect products and timely product and shipment delivery. According to DCMA officials, thousands of metrics flourished at this time, which some officials noted were too many.

DCMA also embarked on a substantially decentralized approach to its policies and procedures, again with the intent of becoming more customer-focused. As a key example, DCMA rescinded its compliance and procedures manual for the agency's required contract management functions—known as the "DCMA One Book." Contents of the manual that were still deemed required—reportedly a small portion—became a DCMA instruction, and the rest was considered to be guidance and not mandatory for CMOs to follow. The intent of the change was to allow more flexibility for the CMOs to modify existing processes and explore new ones to better support their own customers' expected outcomes and objectives. However, officials from some CMOs we visited said the loss of the "DCMA One Book" resulted in loss of consistent agency guidance and procedures, with one official characterizing this situation as a "free for all."

Ironically, this focus on providing CMOs the flexibility to meet their customers' needs as well as the absence of specific guidance and procedures resulted, according to DCMA officials, in a level of confusion among their program office customers. Other unintended consequences included concerns on the part of DCMA that it had shifted too far toward focusing on the customer. Relatedly, the decentralized nature of DCMA guidance led each product division to develop and execute its own policies and provided CMOs the leeway to develop additional policies and procedures to respond to their own customers' needs. This led to inconsistent oversight and surveillance activities among CMOs. Another unintended consequence was inefficiencies in how CMOs operated. For example, CMOs in close proximity but under different product divisions sometimes did not share resources or expertise and thus did not leverage their workforces to help meet workload surge requirements.

To address these unintended consequences and in light of its new and growing workforce, in 2009 DCMA undertook a number of changes to its organization, procedures, and policies. Rather than being aligned under the four DOD product areas, the 40 CMOs are now aligned under three regional commands, as shown in figure 4.

Figure 4: DCMA Geographic Realignment of CMOs in 2010

Western Region

Central Region

Eastern Region

Western Regional Command
Carson, CA
Geographic CMOs
- Denver, CO
- Lathrop, CA
- Los Angeles, CA
- Palmdale, CA
- Phoenix, AZ
- Santa Ana, CA
Plant CMOs
- Boeing Huntington Beach (CA)
- Boeing Long Beach (CA)
- Lockheed Martin Denver (CO)
- Lockheed Martin Sunnyvale (CA)
- Raytheon Tucson (AZ)
Specialized CMO
- NASA Product Operations

Central Regional Command
Chicago, IL
Geographic CMOs
- Chicago, IL
- Dallas, TX
- Dayton, OH
- Detroit, MI
- Huntsville, AL
- Twin Cities, MN
Plant CMOs
- Bell Helicopter Fort Worth (TX)
- Boeing St. Louis (MO)
- Lockheed Martin Fort Worth (TX)
Specialized CMOs
- Army Modernization Program Office
- Aircraft Integrated Maintenance Operations

Eastern Regional Command
Boston, MA
Geographic CMOs
- Atlanta, GA
- Baltimore, MD
- Boston, MA
- Garden City, NY
- Hartford, CT
- Manassas, VA
- Orlando, FL
- Philadelphia, PA
- Springfield, NJ
Plant CMOs
- Lockheed Martin Marietta (GA)
- Lockheed Martin Moorestown (NJ)
- Lockheed Martin Orlando (FL)
- Boeing Philadelphia (PA)
- Sikorsky Aircraft (CT)
- Raytheon Tewksbury (MA)
Specialized CMOs
- Aircraft Propulsion Operations
- Naval Special Emphasis Operations

Source: GAO summary of DCMA information.

According to DCMA, while the product-division alignment allowed for a strong customer focus, going back to a regional alignment has permitted more efficiencies among the CMOs by facilitating consistent execution of policy and tools throughout each region.

DCMA is also updating and developing centralized instructions and procedures to help regain consistency among the CMOs and to help ensure the agency meets all of its contract administration responsibilities. Since 2009, DCMA has issued more than 40 instructions and over 100 modifications or revisions to instructions. For example, in November 2010, DCMA revised in its entirety its *Major Program Support Instruction*. The purpose of major program support is to provide DCMA customers and internal management with timely analysis and insight to prevent and/or resolve a program's cost, schedule, or performance problems, and the instruction provides guidance on how DCMA will accomplish these objectives. DCMA has also updated three EVMS instructions since November 2010, and its quality assurance policy implementation includes 22 new instructions issued since March 2009. While some CMO staff told us the plethora of new, centralized guidance and instructions can be overwhelming at times, several also indicated they were pleased to be moving away from the prior, decentralized model where they were largely left to their own devices.

DCMA Is Developing Performance Indicators to Measure Progress and Using Other Strategies to Optimize Its Workforce Balance

In 2009, DCMA also began to shift from a focus on customer-based metrics to using performance indicators intended to gauge how well the agency is meeting its missions. The agency currently has 122 indicators in place, addressing contractor supplier-base issues and DCMA processes, workload, and resources. DCMA officials noted that these indicators are reviewed for trends and to help identify root causes of any problems. For example, DCMA officials explained that the performance indicator related to contract closeouts showed a marked decline in timely closeouts over the last few years, indicating a major problem. Further analysis showed a severe resourcing problem in the two CMOs responsible for nearly half of all contract closeouts. DCMA identified a need for greater training on contract closeouts; after implementing a training program, the indicators revealed that the timeliness of contract closeouts had improved. In some cases, DCMA is looking to improve performance indicators to ensure they are motivating performance in the way the agency intends. For example, a primary performance indicator for industrial specialists involves prediction of schedule delays, which according to a DCMA official, encourages industrial specialists to track schedules from "behind their computers," rather than to be on the shop floor, where DCMA senior officials would like them to spend their time. Senior DCMA officials acknowledged that they are still in the process of reassessing the indicators. Additionally, DCMA is evaluating which indicators need to be reviewed at the headquarters level.

DCMA also takes steps to identify and rectify workforce imbalances through its workload allocation processes. The headquarters directorate holds regular workload and resourcing sessions with each regional command and the CMOs under its purview to evaluate CMO workload requirements. DCMA officials expect these sessions to be important for making resource allocation decisions across the CMOs. In addition, headquarters officials had conducted resource reviews to identify the positions, by job series, required at each CMO based on current and future workloads and on the CMOs' performance. However, because of fiscal year 2011 funding constraints, the resource reviews have been put on hold.

DCMA Uses Various Approaches to Address Impact of Contingency Deployments on Domestic Operations

While the overall requirement for support of contingency operations has increased fourfold over the past 5 years and the portion of that increase shouldered by DCMA staff has more than tripled from 2007, the number of DCMA staff deployed remains relatively small compared to the size of the agency workforce. CMO officials told us it is difficult to isolate the impact of CCAS deployments on overall CMO performance from other resource constraints DCMA faces. Nevertheless, the officials identified a number of ways deployments impact domestic operations— including some instances of work being delayed or not completed—and identified a variety of approaches they use to manage workload given the deployments. A number of CMO leaders deploy, in part because a high proportion of them are military, and these deployments can have a significant impact on the operations of a CMO. Also, DCMA civilians may deploy multiple times, and CMO officials report they had little notice to plan for these deployments. To minimize the impact of civilian deployments, DCMA has established a position for a corps of 250 personnel hired specifically to support the contingency mission, but CMOs report management challenges with using these resources.

Proportion of DCMA's Deployed Workforce is Small, but Has Increased Substantially over the Last 5 Years

Based on requirements agreed to by the Joint Chiefs of Staff, combatant commands, and DCMA, the DCMA CCAS mission in Iraq, Afghanistan, and Kuwait currently requires an in-theater presence of 450 personnel. This number represents more than a fourfold increase from the July 2007 deployment number of 83 and includes a recent, 80-person increase for an enhanced presence in Afghanistan as well as support for the Department of State following the expected withdrawal of troops in Iraq in December 2011. From 2001 through 2008, DCMA had a small, clearly defined role administering the Army's Logistics Civil Augmentation Program support contracts. Then in 2007, an independent commission

recommended significantly expanding DCMA's in-theater role.[16] The Commission's report concluded that the Army's workforce was inadequately staffed, trained, or structured for handling contract management in Iraq and Afghanistan, and as a result, the Army reassigned contract administration to DCMA for contracts involving delivery of supplies and services in these two countries.

As of July 2011, DCMA was deploying 272 of its own people—approximately 2.5 percent of the workforce—with the balance of the 450 total CCAS requirement filled with contractors and DOD military service personnel.[17] The portion of the current CCAS requirement shouldered by DCMA staff, when compared to 2007, has more than tripled. Figure 5 shows the upward trend in CCAS deployments over the past 5 years and the types of personnel deployed.

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[16]The conclusions from the Commission on Army Acquisition and Program Management in Expeditionary Operations were instrumental in reaffirming the role of DCMA in the execution and oversight of all contracts in support of contingency operations. Subsequently, however, a DOD task force proposed transferring the majority of CCAS responsibility to the military services by 2013. According to a DOD review team, some CCAS participants are of the opinion that the military services do not possess, nor can they master, necessary core competencies to assume CCAS responsibility by that time.

[17]DCMA is responsible for sourcing the 450-person CCAS requirement approved by the United States Central Command Joint Manning Document.

Figure 5: 5-Year CCAS Deployment Trends

Number of CCAS deployments
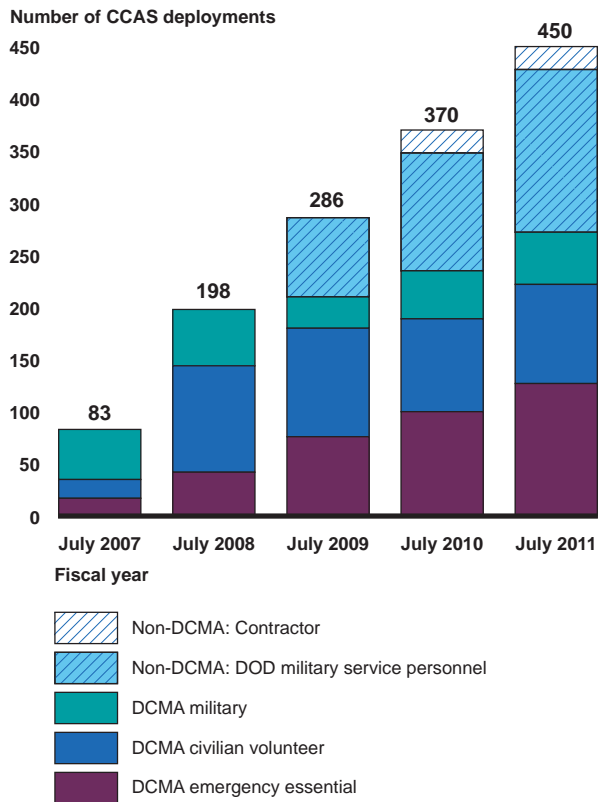
Source: GAO analysis of DCMA data.

Note: According to DCMA, the civilian volunteers include a very small number of non-DCMA personnel.

In terms of the type of work these personnel are performing in-theater, nearly three-quarters of the required contingency positions are in the areas of contracting and quality assurance. Further, the need for these two areas of expertise in-theater has grown dramatically from 2007 to 2011, with the requirements for contracting positions increasing from 20 to 144, and the requirements for quality assurance increasing from 20 to 182.

In Light of Overall Resource Constraints, CMO Officials Identified Ways Deployments Affect Their Domestic Operations and Workload

Several of the CMOs we visited report that it is difficult to isolate the impact of CCAS deployments on overall CMO performance from other resource constraints DCMA faces. DCMA conducted an analysis of the relationship between other agency performance indicators (e.g., percentage of contract closeouts completed and percentage of completed quality surveillance plans) and CMOs with high proportions of CCAS hours in fiscal year 2010, but this analysis showed no discernable correlation between high CCAS hours and CMO mission performance. While DCMA is working to develop performance indicators to assess the future impact of CCAS on the agency's domestic mission, these indicators are not yet fully implemented.

Nevertheless, several DCMA officials we interviewed believe that CCAS deployments have a definite, constraining impact on the agency's domestic mission, and CMO officials identified specific examples of how their operations are affected by deployments. They cited delays in quality assurance response times, for example, and noted that audits of a contractor's processes and contract closeout activities have been delayed or not done. The officials provided numerous other examples, including:

- In the contracting area, at one CMO, contract receipt and review and funds cancellations were delayed when a key person deployed. The CMO officials affirmed that activities were still performed, but took longer than usual to complete or the quality of the work was lower than customary.

- In the quality area, a DCMA internal review team found that since quality assurance representatives must focus first on conducting necessary inspections, other functions—such as completing documentation, reviewing low or medium risk processes, and performing data analysis—were suffering.

CMO officials identified a number of ways they manage the workload when someone deploys, such as adjusting workloads of the remaining staff, granting overtime and compensatory time, and implementing staggered work shifts. They also reported backfilling positions with

temporary hires, seeking temporary promotions for CMO staff,[18] bringing back retired annuitants or reservists, or hiring permanent replacements. In some cases, CMO officials said they had temporarily assigned staff to other locations.

CMOs commonly use a risk-based approach to ensure that what they view as the highest priority or most critical work is completed first. For example, a team leader might focus on getting the mission work done but may not have time to mentor staff. Officials in one of the regional commands said they have to take care that tasks such as inspection of items critical to safety and mandatory government inspections are performed first. Lower priority items often will be deferred, such as contract audit follow-up and contract closeout. In another instance, when an Industrial Specialist volunteered to deploy, CMO officials were able to come to agreement with the customer that schedule surveillance could be conducted less frequently, because the contractor typically made deliveries ahead of schedule.

CMOs we visited noted that the impact of CCAS deployments on CMOs varies based on the type of deployment (civilian volunteer or EE), deployment of CMO leadership, and rates of deployment at the CMO.

Type of Deployment

CMO officials told us they often cannot plan for civilian volunteer deployments because of short notice of the impending deployment (usually issued by the Combat Support Center 60-90 days in advance), which creates challenges in backfilling the position. In addition, once selected, the volunteer's time available to the CMO before deployment can be curtailed by more than a month because of requirements for training, medical checks, and other pre-deployment activities. The impact on CMO workload is magnified when civilian volunteers extend their deployments—which happens frequently—or deploy multiple times. For example, in 2010, 55 civilian volunteers requested an extension of their deployment, and only 4 were denied.

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[18]Although CMOs report using temporary promotions, they also reported this presents a challenge, because CCAS deployment timelines (typically 180 days or longer) exceed temporary promotion timelines specified in Office of Personnel Management regulations (up to 120 days without competing the position). CMOs reported that this could require leaving the position open for a period of 60 days, or require that additional individuals be temporarily promoted to cover the full 180-day vacancy.

CMOs we visited reported different challenges in relation to EE personnel.[19] First, some said that EEs spend so little time at their CMO that they cannot be used effectively. The EE workforce, during its initial 3-year commitment, deployed for 6 to 9 months, and then returned to a home CMO for 6 to 9 months before deploying again. In one situation, a CMO commander placed an EE in an ACO position, but lost that person when he was denied a request to defer deployment, highlighting the challenges of using EEs in key positions or assigning them significant levels of responsibility. Second, CMO commanders noted that they have little say in the selection and deployment of EEs; some CMOs have a relatively high concentration of EEs—about 6 percent of the CMO's workforce in two cases. According to senior leadership, DCMA now realizes it needs to improve its management of the EE placement process and has begun targeted hiring in areas where there may be a large untapped skill-base of potential EEs. Third, officials said they had unanticipated challenges as a result of the temporary promotions provided to deploying EE personnel. These temporary promotions were used as one of several means to incentivize potential hires, at a time when DCMA needed to quickly increase numbers to meet expanding requirements. However, DCMA officials reported that when these staff returned to their home CMO, they had adjusted to the higher salary and the associated work, but often, corresponding higher-level positions were not available at the CMO. DCMA officials stated that temporary promotions for EEs have been discontinued, noting the temporary promotions were not cost effective and that the CMO work did not always justify the higher grade.

Leadership

Deployments can have an especially significant impact when they involve a CMO's leadership.[20] A number of CMO leaders deploy, in part, because a high proportion of them are military.[21] Specifically, according to senior DCMA officials, nearly half of its CMO heads and deputies at domestic

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[19]As of July 2011, DCMA reported it had 250 authorized EE positions, with 229 EEs on board.

[20]In this section, CMO leadership refers to CMO Commanders, Directors, and their deputies.

[21]In general, DCMA's deployments involve a high percentage of the agency's military personnel. Excluding DCMA's aviation-related active duty personnel who are rarely deployed, the number of military members available to deploy is approximately 100, and of those, approximately 50 percent can expect to deploy, generally for 9 months, sometime during their 3-year tour with DCMA.

CMOs are military, and all O-5 military commanders stationed with DCMA in the United States are scheduled to deploy for one year sometime within their 3-year tour with DCMA.[22] Officials at several CMOs commented that losing leadership is difficult and challenging, resulting in deputies taking on the role of CMO leader, with other personnel then being detailed or temporarily promoted to Acting Deputy. Deployment of commanders in the middle of their tours can be particularly difficult, according to another CMO official, because a commander often requires 2 to 3 continuous years in a leadership position to implement new initiatives, and an interruption can result in loss of momentum for change and improvements. While DCMA endeavors to have senior military personnel complete their deployments as close to the beginning of their DCMA tours as they can—ideally leaving them back at the CMO for a 2-year period at the tour's end for the sake of continuity—some senior officers nevertheless deploy in the middle of their tours, resulting in interruptions and a lack of continuity within the CMO. As an example, CCAS deployments had a considerable impact with respect to leadership at one CMO. Deployment of the commander in 2010 resulted in turnover of the commander's position five times in the following 16 months, during which time a series of replacements was appointed for a variety of performance and operational reasons. According to CMO officials, instability in the leadership at this office contributed to morale and performance shortfalls that were exacerbated by significant growth in new program requirements and significant contractor quality issues at that site. Overcoming these issues required extensive temporary duty costs to split a commander between two sites and personal sacrifice and hardship for the entire leadership team.

Some CMOs Affected More than Others

Some CMOs have higher rates of deployment than others, which leads to a disproportionate impact of deployments. According to DCMA data, CMOs' hours dedicated to CCAS in fiscal year 2010 ranged from 10.2 percent of total workforce hours to 0.6 percent. For example, in the last 2 years, a total of 55 people— or about 11 percent of the total workforce—deployed from one CMO, of which 37 were civilian volunteers. In contrast, officials at another CMO reported that only 4 of their 202 employees were deployed in the last 2 years. Reasons why some CMOs have higher rates of deployed

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[22]However, DCMA does not deploy its O-6 commanders because the two in-theater O-6 command billets for CCAS are directly sourced by the Army. O-6 commanders are Air Force or Army Colonels or Navy Captains; O-5 commanders are Air Force or Army Lieutenant Colonels or Navy Commanders.

personnel vary. It can be due to high concentrations of EE personnel at a CMO, a high proportion of military personnel, or large numbers of motivated civilians with skills that are in high demand in contingency situations, such as contracting or quality assurance. CMO officials also told us that deployments disproportionately impact some of their suboffices with small numbers of staff or in remote areas. For example, officials at one CMO told us a suboffice had 2 of 10 quality assurance staff deployed simultaneously. To fill the gap, personnel from the CMO had to drive to the suboffice—a distance of over 400 miles. Officials said that the level of quality assurance suffered, being limited to only the minimum required inspections. In reaction, some DOD program offices sent their own technical people to assist in this work; in other cases shipments were delayed. DCMA senior officials told us that they are trying to support CMOs that may be hit harder than others by considering delays or waivers for CCAS assignments if needed—but these situations have to be balanced against the high priority of the CCAS mission.

DCMA has taken steps to mitigate the impact of deployments on individual CMOs. For example, it allows individuals to request deployment waivers, but few requests are made. From the start of 2010, through June of 2011, DCMA employees submitted 21 waiver requests. While 19 of these requests were approved, most (14) were because of medical or family emergencies or significant personal hardship; 5 were granted because of a significant mission impact to the CMO organization. Officials say that a high bar is set for granting waivers because of the CCAS mission, and that supporting the warfighter has a very high priority at DCMA. The agency has also lengthened deployment time frames to reduce their frequency. Military deployments have been increased from 6 months to 9 months, and EE deployments are in the process of being extended from 179 days to 12 months. DCMA has also begun a CCAS track for third-year DCMA interns, intended to help meet increasing CCAS deployment requirements by enlarging the base of eligible civilian volunteers.

A Number of Factors May Affect DCMA's Ability to Conduct Oversight and Surveillance Activities

In addition to the impact of contingency deployments, other factors present risks to DCMA's ability to execute its domestic oversight and surveillance mission. A key external risk to DCMA's ability to effectively carry out its responsibility to determine the adequacy of defense contractor business systems comes from delays in obtaining audits from DCAA. We also found that DCMA contracting officers maintained their determination of many contractor business systems as adequate despite the fact that the systems had not been audited by DCAA in a number of

years—in many cases well beyond the time frames outlined in DCAA guidance. Another potential risk for DCMA is a recent DOD policy change that increased the dollar threshold at which DCAA will conduct certain audits; as a result, DCMA's own pricing workload will increase. In addition, DCMA must manage two sources of internal risk. First, some CMOs are uncertain how newly hired personnel using the Defense Acquisition Workforce Development Fund, and EEs hired under Overseas Contingency Operations funds, affect CMOs' authorized staffing levels and funding. Second, the agency faces a potential increased workload in oversight and surveillance of key suppliers as defense subcontracting grows.

DCMA Maintains Adequacy Determination for Contractor Business Systems Even When DCAA Audits Are Outdated

Contractor business systems and internal controls are the first line of defense against waste, fraud, and abuse on government contracts, and so the government is at greater risk of overpaying contractors if possible deficiencies exist in the systems. A role of some DCMA ACOs is to determine the acceptability or adequacy of business systems for contractors under their purview.[23] While DCMA has additional resources to support assessment of purchasing systems, EVMS, and property management systems, one method it relies on to arrive at status determinations for contractors' accounting, estimating, and material management and accounting systems is the DCAA audits of each system.[24] DCAA policy establishes guidelines for how often contractor business system audits should take place, as shown in table 3.

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[23]The term "contractors" in this section may refer to a contractor at the division or corporate level. Within DCMA, cognizant ACOs for contractor business systems at a contractor's division are known as Divisional ACOs, whereas cognizant ACOs at the corporate level are referred to as Corporate ACOs.

[24]We collected information on the status of all six contractor business systems from the cognizant ACO. Our preliminary analysis of this information showed that, of the six contractor business systems, the audits of the accounting, estimating, and material management and accounting systems were particularly dated. While in some cases, system reviews for, for example, the purchasing system, were out of date, the ACO's information showed that the preponderance of purchasing, property management, and EVM systems had been reviewed more recently than the other three systems. Therefore, we focused on the timeliness of the accounting and estimating systems, as well as the MMAS, for the purposes of this objective.

Table 3: Guidelines for Frequency of Conducting Accounting, Estimating, and Material Management and Accounting System Audits

Contractor Business System	Time Frame for Audit
Accounting	At least every 4 years
Estimating	At least every 3 years[a]
Material management and accounting	At least every 4 years

Source: DCAA Contract Audit Manual.

[a]This is the time frame in DCAA guidance, unless a determination that current audit risk is considered to be low is documented.

We examined the status of these three business systems for the 17 defense contractors responsible for programs included in this review, as provided by the cognizant ACO. We found a substantial number of systems that had not been audited within the DCAA time frames; 12 of the contractors had at least one system without a current and timely audit.[25] For example, as of May 31, 2011, 10 contractors had not had an overall accounting system audit within the last 4 years, and 9 had not had an estimating system audit within the last 3 years. In one case, a contractor which has increased its government business more than sevenfold since 2000 has not had an overall accounting system audit since 1998, despite the ACO requesting that DCAA perform such an audit.[26] Further, one estimating system audit and two MMAS audits have never been conducted because, according to DCAA and DCMA officials, DCAA has not had the resources available to perform them.[27] For contractors where an audit was conducted, figure 6 illustrates the date of

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[25]In some cases, audits of a contractor's business system were not conducted. Examples of why a system was not evaluated included a recent establishment of a common business system for a joint venture between two companies, recent consolidation of multiple sites under one system, agency resource issues, or that a contractor business system audit was not required because, for instance, it was not required in the contract or the contractor was not considered a major contractor. Because there was no audit to include, all of these cases were excluded from our analysis.

[26]A DCAA official told us that this contractor became a major contractor in 2004. This official reported that an accounting system audit was under way in 2006, at the same time the contractor was growing significantly and that there were many changes to the contractor's accounting system, but that this audit was never finished. The official reported that DCAA conducted a pre-award audit of the contractor's accounting system in 2009, but acknowledged an overall accounting system audit has not been completed.

[27]The three audits that have not been conducted involved two contractors. DCAA officials told us that, for one of the contractors, limited scope audits of the contractor's estimating system and MMAS are currently under way based on identified risks.

the last audits of the three business systems, relative to DCAA's guidelines.

Figure 6: Most Recent System Audits for 17 Contractors Reviewed, as of May 31, 2011
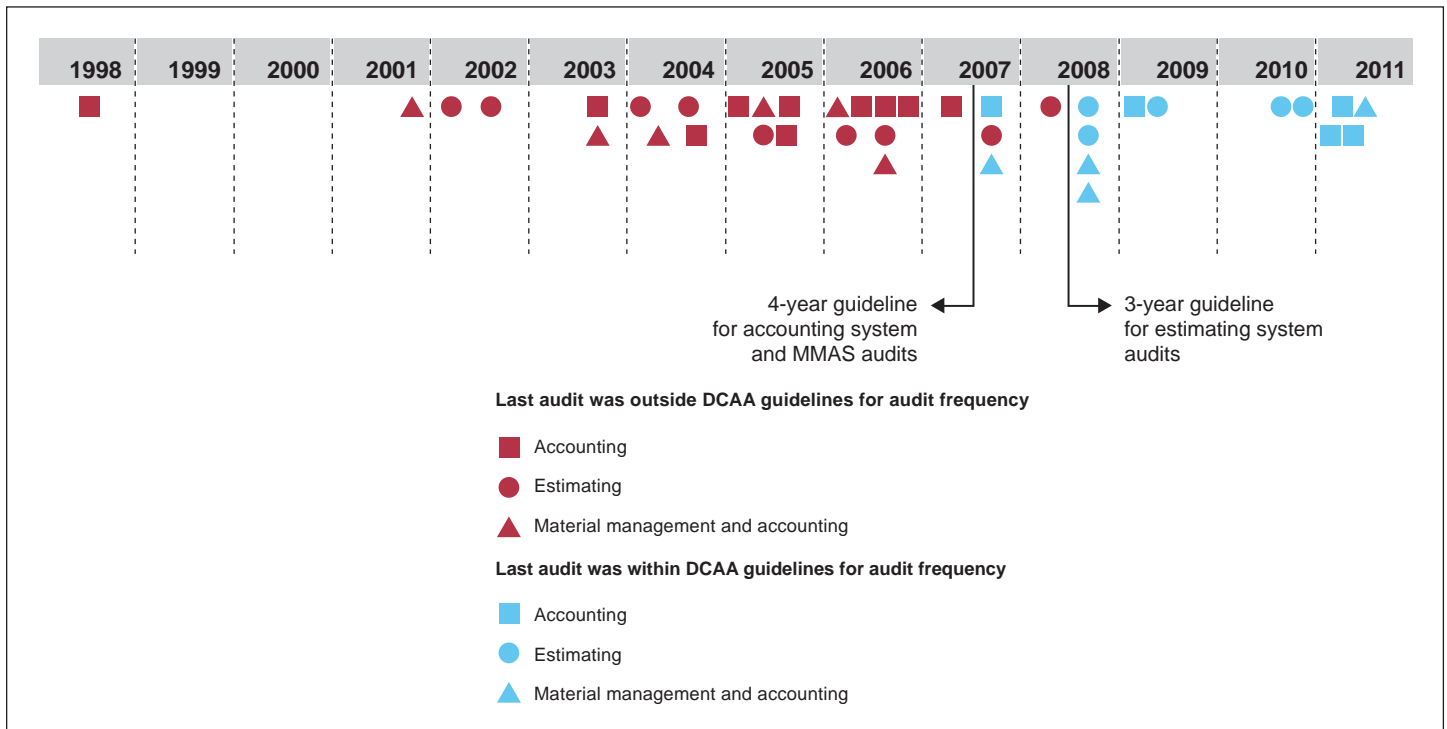
Source: GAO analysis of DCMA data.

Note: In June 2011, after the date for which we collected this information, DCAA completed an audit for one of the contractors whose previous estimating system audit was conducted in 2002. In cases where there was a follow-up audit conducted in relation to a system audit, the follow-up audit date is reflected in the figure. In some cases, no audit was conducted, and therefore audit information is not included in the figure. See footnote 25 for reasons why no audit was conducted.

When an audit of a system becomes outdated, we found that the cognizant ACOs generally maintain their prior status determination even if it was made several years in the past. For example, the ACOs still termed as "adequate" or "approved" all 10 of the defense contractor accounting systems that have not been audited in the last 4 years—including the accounting system that has not been audited since 1998. And ACOs considered all but two of the estimating systems that have not been audited in the last 3 years "adequate," "approved," or "acceptable." Some ACOs also told us that, when audits are outdated, a program office may need to rely on DCMA and DCAA's more informal assessment of a business system's status. Officials with one DOD program office told us

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that while they were aware of the time that had passed since the last audit of business systems for the prime contractor, they continue to rely on the expertise of DCMA and DCAA to identify problems with the systems and oversee resolution.

Some ACOs expressed concern that they did not have more up-to-date information with which to determine the status of the business systems, especially if they knew that a contractor had undergone significant change, such as rapid growth. Many expressed frustration at the lack of timely DCAA audit support and identified it as a significant impediment to their ability to assess the status of contractor business systems, particularly accounting and estimating systems. Further, most noted that their DCAA counterparts were unable to provide clear and firm time frames for when the next audits would take place. In some cases, ACOs reported that expected audits planned by DCAA for a given fiscal year were not completed, so were moved back to the next year or canceled. When business systems are not audited in a timely manner, the government is at increased risk of paying for unallowable and unreasonable costs, as a contractor's cost structure or accounting procedures may change over time.

The Director of DCAA acknowledged that the agency has been behind on business system audits and that these audits had not been a top priority for fiscal years 2010 or 2011. He stated that DCAA has been focusing on addressing other priorities identified as higher risk with its limited workforce, such as support for overseas contingency operations contracts, reviewing contractors' forward pricing rates prior to contract award, and incurred cost audits. A DCAA official stated that compared to the resources expended, forward pricing rate audits have the greatest return to the taxpayer. DCAA officials noted that they were still assessing which business system audits need to take place and that the agency has to balance this requirement with its other current priorities. They added that they have recently launched a pilot program to conduct corporate-level business system audits for major defense contractors, aimed at improved coordination of DCAA audits and resources. DCAA officials told us that for fiscal years 2011 and 2012, this pilot primarily involves overseas contingency operations contractors, but also includes one other major defense contractor. In addition, DCAA plans to build its workforce, expecting to hire approximately 250 more auditors by the end of fiscal year 2011. Our recent work confirmed the challenges DCAA is facing in

terms of its workforce and workload.[28] In September 2011, we reported that while DCAA's workforce grew by 16 percent from fiscal years 2000 to 2011, DOD research and procurement spending (an indicator of DCAA's workload) increased by 87 percent. As a result, auditors have prioritized time-sensitive activities such as audits to support new awards. Further, in that report we found that DCAA's initiatives to address contractor business systems will take several years.

Officials from the Office of the Secretary of Defense recognize the importance of contractor business systems and have taken some steps designed to improve their quality and transparency, but gaps in their approaches remain. For example, DCMA officials told us that DOD officials directed them to increase visibility into the status of business systems by developing a data repository for this information for use across the department. DCMA officials explained that this database, launched in March 2011, is intended to provide DOD buying commands and DCMA personnel more timely and accessible information on the status of defense contractors' corporate and division level business systems. While ACOs can document dates of the last business system audits in this database, because the system requires attaching documentation of the status of business systems rather than entering that information into a database, the system is not set up to allow DCMA officials visibility across all defense contractors to understand the full extent and impact of audit timeliness problems. In May 2011, DOD also issued an interim rule containing changes to the DFARS that clarified the department's definition of contractor business systems, delineated the roles of DCMA and DCAA with regard to systems oversight, and put in place processes for withholding payments from contractors with business system deficiencies.

Our findings are consistent with recent issues raised by others about the timeliness of contractor business system audits. The House of Representatives Committee on Armed Services expressed concern in May 2011 over DCAA's personnel shortfalls and audit delays and the

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[28]GAO, *Contingency Contracting: Improved Planning and Management Oversight Needed to Address Challenges with Closing Contracts,* GAO-11-891 (Washington, D.C.: Sept. 27, 2011).

impact these might have on competition in DOD contracting.[29] In September 2009, the Commission on Wartime Contracting in Iraq and Afghanistan also noted the challenge of determining the real-time status of contractor business systems because of staffing shortages at DCAA that reduce the timeliness of audits.[30]

Changes in Audit Thresholds at DCAA Will Increase Pricing Workload for DCMA

DCMA personnel will face greater responsibilities as a result of a recent policy change spearheaded by the Office of the Under Secretary of Defense for AT&L, aimed at freeing up DCAA resources to prioritize high-risk audit work. This change came in response to recommendations made by oversight organizations and guidance from AT&L to ensure that DCAA's audit effort focuses on areas with greatest risk to the taxpayer and that it align workload requirements with available resources. Effective September 17, 2010, and in response to a change to guidance for defense acquisition regulations, DCAA generally no longer performs audits on contractor cost-type proposals below $100 million or on fixed-price proposals below $10 million. As a result of this change, most pricing requests below these dollar thresholds will now be referred to DCMA. Although the new policy was developed in consultation with senior DCMA leadership, we found that in some instances, CMO officials were surprised by the change and expressed concern about implications for their workload.

DCMA headquarters officials have conducted some analysis of how much work the agency might take on as a result of the threshold change. Based on data provided by DCAA and assumptions about how much work may be retained by either DCAA or DOD buying activities, DCMA estimates that it will receive approximately 1,250 additional pricing requests on contractor proposals in fiscal year 2011. DCMA officials told us that the agency plans to rely on newly hired contract cost/price analysts at the CMOs to shoulder this workload, even as they are undergoing a significant amount of training to achieve their necessary certifications.

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[29]National Defense Authorization Act for Fiscal Year 2012. Report of the Committee on Armed Services, House of Representatives, on H. R. 1540 together with Additional Views. (Washington, D.C.: May 17, 2011).

[30]Commission on Wartime Contracting in Iraq and Afghanistan, *Special Report on Contractor Business Systems: Defense Agencies Must Improve Their Oversight of Contractor Business Systems to Reduce Waste, Fraud, and Abuse* (Sept. 21, 2009).

DCMA Faces Internal Sources of Potential Risk That May Affect Its Overall Efforts

DCMA's ability to conduct oversight and surveillance domestically may also be affected by how the agency responds to internal sources of risk. Our work identified two areas of potential internal risk for DCMA going forward: first, uncertainty among some CMO officials about the status of funding sources for new CMO personnel, and second, provision of adequate oversight of key suppliers in light of growing defense subcontracting.

Uncertainty Exists about Funding Sources for New Hires and EE Personnel

Some CMO officials are uncertain how newly hired personnel using the Defense Acquisition Workforce Development Fund, and EEs hired under Overseas Contingency Operations funds, affect their authorized staffing levels and funding. In building its workforce, DCMA has made increasing use of the Defense Acquisition Workforce Development Fund for journeymen employees and entry-level interns. DCMA leadership noted that the agency is requesting increased O&M funding to convert these positions in the future. Some CMO leaders told us, however, they were not sure that they would have enough O&M-funded positions available to be able to retain the journeymen and interns they had originally hired using the new funding source. CMO leaders told us they were monitoring attrition to make sure they have spaces for conversions, if needed. DCMA leadership explained that decisions about funding sources for personnel take place at the agency headquarters level, rather than at the CMO level, and as a result, the mix of funding sources for a particular CMO may change over time but should not affect the number of positions at the CMO. Going forward, DCMA will continue to face the issue of ensuring adequate O&M funds to cover these positions.

We also found some confusion about the source of funding for the EE personnel. According to DCMA headquarters officials, EE personnel are generally hired using Overseas Contingency Operations funds managed in a separate pool at headquarters. Because of this arrangement, EE personnel do not count against authorized CMO funding or manning levels—they are over and above those levels. Nevertheless, some CMOs and one of the regional commands we visited expressed concern that EEs take away staffing and/or dollars from the CMOs. For example, at the regional command we were told that EEs are paid out of O&M funds when they are working at the CMOs, but when deployed, they are compensated from another independent pot of money. Headquarters officials surmised that when the EE program was first initiated in 2008, O&M and Overseas Contingency Operations funds were mixed together for a short while and that there may be some lingering confusion as a result.

In its fiscal year 2010-2015 strategic human capital plan, DCMA identified internal communication as a weakness, and its employees have noted that they get incomplete and mixed messages because of inconsistent flows of information from the top to lower levels of the agency. DCMA officials cite the agency's shift to a functional structure as a method for simplifying communication up and down the chain of command.

Growth in Defense Subcontracting May Complicate Oversight of Key Suppliers

Our previous work has noted that prime contractors are subcontracting more work on the production of weapon systems, while concentrating their own efforts instead on systems integration. Based on some estimates, 60 to 70 percent of work on defense contracts is now done by subcontractors, with some industries aiming to outsource up to 80 percent of the work.[31] We have also identified parts quality problems in DOD systems that were, among other issues, directly attributed to a lack of effective supplier management, with the costs borne by the government.[32]

Per DCMA policy, CMOs responsible for monitoring the prime contractor's activities should exercise oversight and surveillance of those primes' subcontractors through delegations to the CMOs responsible for those subcontractors. The amount of delegated workload varies across CMOs. DCMA leadership generally did not express concern about the amount of delegated work or its potential growth. However, leadership has noted the need for improved data to provide visibility into the supply chain so that DCMA can receive and communicate to customers earlier warnings that a subcontractor's delivery might be late. For example, a contractor may be a prime contractor on one program, and a subcontractor on another. A senior DCMA official told us that better data about performance on the prime contract could provide DCMA with insight into potential delays or other issues that may affect the program on which the contractor has a subcontract. From the customer's perspective, several program office officials noted that DCMA surveillance across key suppliers was of value to them.

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[31]GAO, *Defense Acquisitions: Additional Guidance Needed to Improve Visibility into the Structure and Management of Major Weapon System Subcontracts*, GAO-11-61R (Washington, D.C.: Oct. 28, 2010).

[32]GAO, *Space and Missile Defense Acquisitions: Periodic Assessment Needed to Correct Parts Quality Problems in Major Programs,* GAO-11-404 (Washington, D.C.: June 24, 2011).

DCMA has acknowledged the need to address supply chain risks that may affect program cost and schedule, such as poor supply chain management by prime contractors that are subcontracting, by defining where those risks lie and influencing prime contractor oversight in those areas. To support these activities, DCMA plans to increase the size and quality of its supply management specialist workforce, including provision of training and certification and creation of development plans for supply management professionals. DCMA is also placing more supply management specialists at the CMOs and has tasked one of its divisions with providing policies, training, and tools to the supply chain management workforce. In addition, DCMA's Industrial Analysis Center's mission is to provide insight into the ability of the supplier base to support DOD programs.

Conclusions

Recovering from years of a seriously eroded workforce that left the agency unable to fulfill all of its missions has posed a significant management challenge for DCMA. It has taken several key steps—including reorganizing the agency, strengthening its guidance and procedures, and rebuilding areas of expertise—aimed at putting the agency on the path to successfully meeting its missions going forward. The issues we have raised regarding the impact of contingency deployments on DCMA and its responsibilities domestically can be expected to continue, as the agency's contingency role is not expected to diminish in the near future. DCMA leadership is largely aware of the challenges in this regard and has indicated that steps will be taken to mitigate, to the extent possible, the impact on domestic CMOs.

At the broader DOD level, the recent change to defense regulations is a positive step toward achieving better visibility into contractor business systems. However, because we found consistent delays in the audit time frames for the business systems that require support from DCAA, higher-level attention is needed to mitigate the risk to the government of outdated business system audits. DCAA, because of workforce challenges of its own, is not at present able to fulfill its business system audit responsibilities and is not likely to be in a position to do so in the near term given its other priorities. Thus, the department needs to consider alternative methods to accomplish these critical audits in a timelier manner. Other factors we identified, however, are largely in DCMA's control and can be addressed in the shorter term. In particular, DCMA's practice of considering contractor business systems adequate even when they have not been audited or reviewed in a number of years may put taxpayer funds at risk by suggesting a system is sound when that

may not in fact be the case. And the uncertainty on the part of CMO leaders about sustained funding for their new hires brought in under the Defense Acquisition Workforce Development Fund and the source of funding for EE personnel suggests that clearer communication is warranted.

Recommendations for Executive Action

We recommend that the Secretary of Defense work with DCMA and DCAA to identify and execute options, such as hiring external auditors, to assist in conducting audits of contractor business systems as an interim step until DCAA can build its workforce enough to fulfill this responsibility.

We recommend that the Director of the DCMA take the following two actions:

- Identify ways to accurately and transparently reflect the current status of business systems, such as changing the status of a system to "unassessed" when a system has not been audited within DCAA's time frames.

- Clarify for the CMOs the specific plans for how O&M funding is to be provided to enable CMOs to continue supporting new hires brought in under the Defense Acquisition Workforce Development Fund and how EE personnel are funded when working at domestic CMOs, given the confusion regarding this issue.

Agency Comments and Our Evaluation

DOD provided us with written comments on a draft of this report. DOD agreed with two of our recommendations and partially agreed with one. DOD's written response is reprinted in appendix II.
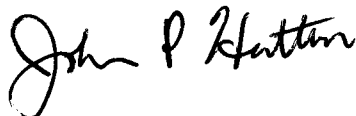
Regarding our recommendation that the department consider alternative approaches to audits of contractor business systems, DOD agreed to consider alternative approaches but did not elaborate with any planned actions or time frames. DOD also agreed with our recommendation that DCMA clarify for the CMOs how O&M funding is to be provided to enable them to continue supporting new hires brought in under the Defense Acquisition Workforce Development Fund, as well as how EE personnel are funded when working at CMOs. The response explained that DCMA has O&M funding and full-time equivalents in its fiscal year 2012-2015 fiscal guidance for the conversions and noted that DCMA is pursuing funding for future year conversions. It also clarified that EE personnel under the current 3-year program are funded by Overseas Contingency

Operations funds wherever they are working, including at domestic CMOs. Given the confusion we found on these issues, we believe it is important that the Director of DCMA regularly share this funding information with the CMOs.

DOD partially agreed with our recommendation that the Director of DCMA identify ways to accurately and transparently reflect the current status of contractor business systems. The response outlined steps DCMA is planning to take, including issuing a new policy on contractor business system requirements and updating the agency's existing data repository, to include adding data fields, to supplement current information. DOD expressed concern that automatically changing the status of a previously "approved" system to "not assessed" solely because status determinations had not occurred within the specified time frames may adversely impact the department's procurement process. The intent of our recommendation was not that all outdated business system assessments be automatically or retroactively changed to "unassessed." Rather, we intended that DCMA determine how a more accurate status could be conveyed. The actions DOD has outlined, if implemented, should provide greater transparency and visibility into the status of the business system assessments.

We are sending copies of this report to the Secretary of Defense, interested congressional committees, and other interested parties. This report will also be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-4841 or by e-mail at huttonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

John P. Hutton
Director
Acquisition and Sourcing Management

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) assess how the Defense Contract Management Agency (DCMA) is positioning itself to meet its missions; (2) determine the extent to which contingency missions have impacted DCMA's ability to provide oversight and surveillance domestically; and (3) identify other factors that may affect its capability to conduct oversight and surveillance domestically going forward.

To conduct our work for each objective, we reviewed key documents, such as relevant sections of the Federal Acquisition Regulation (FAR) (e.g., FAR Part 42.3, Contract Administration Office Functions) and the Defense Federal Acquisition Regulation Supplement (DFARS), (e.g., DFARS 242.3 – Contract Administration Office Functions). We also reviewed DOD policies, such as the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics memorandums on Better Buying Power. We reviewed DCMA documentation, such as agency guidance and instructions; historical documentation related to DCMA's organizational structure; workforce data (e.g., the number of DCMA staff in different job series); and information on contingency deployments (e.g., total requirements, documentation on the types of deployment, and waiver and extension requests).[1] We reviewed Defense Contract Audit Agency (DCAA) documentation such as relevant sections of the DCAA Contract Audit Manual and audits related to contractor business systems. We also reviewed prior reports concerning DCMA, including our prior work as well as reports of the Commission on Wartime Contracting in Iraq and Afghanistan and others.

Further, we interviewed DCMA officials at headquarters as well as some DCMA centers and divisions, including the Combat Support Center; the Cost and Pricing Center; the Industrial Analysis Center; the Manufacturing Engineering/Supply Chain Predictability Division; and others. To learn more about DCMA processes and procedures, we interviewed DCMA headquarters officials about agencywide initiatives such as performance indicators and resource reviews. We also interviewed senior officials at DCMA's three domestic regional commands, and interviewed the heads of the Contract Management Offices (CMO) at 14 out of the 40 primary CMOs located across the

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[1]To assess the reliability of the data used in this review, we reviewed related documentation, interviewed knowledgeable agency officials, looked for obvious inconsistencies in the data, and verified the accuracy of the data when necessary. From these efforts, we believe the information we obtained is sufficiently reliable for this report.

country. We selected this nonprobability sample of CMOs based on a
number of factors, including geographic location, obtaining a mix of CMO
types (plant-based, geographic, and specialized), percentage of CMO
hours spent on contingency contract administration services, and total
contract dollar value at the CMO. The findings from the CMOs we visited
are not generalizable to the population of all DCMA CMOs.

Within the geographic and plant-based CMOs, we selected a
nonprobability sample of one or two DOD weapons system programs (19
in total) to gather more detailed information about how DCMA provided
support. The findings from these programs are not generalizable to all
programs, but were chosen to ensure that programs with large dollar
values were selected, and to ensure representation of a range of DOD
military services and contractors. For each program, we reviewed DCMA
oversight documentation such as surveillance plans and memorandums
of agreement between DCMA and the program offices. We also
interviewed members of DCMA's Program Support Teams for each
selected program, including program integrators, administrative
contracting officers, quality assurance representatives, engineers,
industrial specialists, and others. To develop a more in-depth
understanding of how DCMA provides oversight, we toured seven
contractor facilities in relation to CMOs we visited. We also collected
information on the status of contractor business systems related to each
of the selected DOD programs and interviewed the DCMA administrative
contracting officer responsible for oversight of those business systems.[2]
To gain their insights on DCMA oversight and surveillance, we also
interviewed officials from eight DOD program offices and representatives
from nine contractors, which we selected by taking into account factors
such as obtaining the perspectives of a range of military services and
contractors. To develop an understanding of DCAA's perspective on
issues related to DCMA and DCAA, particularly oversight of contractor
business systems and changes in DCAA's thresholds for conducting
pricing-related audits, we also interviewed senior officials at DCAA.

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[2]For contractor business systems, we reviewed the status of each system and the date
the system was last audited or reviewed. Our scope did not include an examination of the
specific findings within each audit.

We conducted this performance audit from October 2010 to November
2011 in accordance with generally accepted government auditing
standards. Those standards require that we plan and perform the audit to
obtain sufficient, appropriate evidence to provide a reasonable basis for
our findings and conclusions based on our audit objectives. We believe
that the evidence obtained provides a reasonable basis for our findings
and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

Mr. John Hutton   OCT 31 2011
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Hutton:

     This is the Department of Defense (DoD) response to the GAO Draft Report GAO-12-83,
"DEFENSE CONTRACT MANAGEMENT AGENCY: Amid Ongoing Efforts to Rebuild
Capacity, Several Factors Present Challenges in Meeting its Missions," dated October 12, 2011
(GAO Code 120950). Our comments to the report recommendations are enclosed.

Sincerely,

Richard Ginman
Director, Defense Procurement
and Acquisition Policy

Enclosure:
As stated

**"DEFENSE CONTRACT MANAGEMENT AGENCY: Amid Ongoing Efforts to Rebuild
Capacity, Several Factors Present Challenges in Meeting its Missions"**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense work with DCMA and DCAA to identify and execute options, such as hiring external auditors, to assist in conducting audits of contractor business systems as an interim step until DCAA can build its workforce enough to fulfill this responsibility.

DoD RESPONSE: Concur. The Department will consider alternative approaches to audit contractor business systems.

RECOMMENDATION 2: The GAO recommends that the Director of the DCMA identify ways to accurately and transparently reflect the current status of business systems, such as changing the status of a system to "unassessed" when a system has not been audited within DCAA's timeframes.

DoD RESPONSE: Partially concur. The DCMA policy to implement the Contractor Business Systems requirements is in the final stages of internal coordination. The policy will require Contracting Officer updates of a standard Business System Status template with narrative to include the date of the last system determination and a status of: Approved, Disapproved, Not Assessed, or Not Applicable. Also, the policy provides a matrix of the various business systems and the required timeframes for reviews. While we understand the importance of reviewing systems and making the necessary status determination within the mandated timeframes, automatically changing the status of a previously "Approved" system to "Not Assessed" solely because those actions have not occurred within specified timeframes may adversely impact the Department's procurement process. DCMA policy will direct the Contracting Officer to upload the most current Business System Status template to the Contractor Business Analysis Repository (CBAR); specifically, following any change to the system status. Attaching the template with a narrative will provide the most accurate information available to internal users and DCMA customers. Although the initial intent of CBAR was to be a means of recording data regarding the status of each system, date fields will be added, which will supplement the information in the uploaded template. In addition, DCMA will build query capability for agency management and Contracting Officers to evaluate the timeliness of reviews.

RECOMMENDATION 3: The GAO recommends that the Director of the DCMA clarify for the CMOs the specific plans for how O&M funding is to be provided to enable CMOs to continue supporting new hires brought in under the Defense Acquisition Workforce Fund as

funds expire and how EE personnel are funded when working at domestic CMOs, given the confusion regarding this issue.

DoD RESPONSE: Concur. New personnel hired under the Defense Acquisition Workforce Development Fund (DAWDF) through fiscal year (FY) 2015 will be funded by the DAWDF until their graduation from the program. DCMA activities to include CMOs will be provided O&M funds and full time equivalents (FTEs) for personnel graduating from the DAWDF program and converting to an O&M funded position each fiscal year. DCMA currently has funding and FTEs in its FY 2012-2015 fiscal guidance for DAWDF conversions. DCMA is pursuing DAWDF to O&M conversion funds for FY 2016-2017 in the FY 2013-2017 Integrated Program and Budget Review (IPBR) cycle; and will pursue O&M funds for DAWDF conversions in FY 2018 during the FY 2014-2018 IPBR cycle.

Emergency Essential (EE) personnel under the current 3-year program are funded by Overseas Contingency Operations (OCO) funds throughout their 3-year commitment wherever they are working.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

John P. Hutton, (202) 512-4841 or huttonj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Michele Mackin, Assistant Director; Janet McKelvey; Robert Bullock; Virginia Chanley; John Krump; Suzanne Sterling; Roxanna Sun; and Peter Zwanzig made key contributions to this report.